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FM AMEMBASSY BUDAPEST

TO RUEHC/SECSTATE WASHDC PRIORITY 1490

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 001043

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DEPARTMENT PLEASE PASS TO NSC FOR ADAM STERLING

E.O. 12958: DECL: 06/25/2017

TAGS: PGOV KDEM HU

SUBJECT: HUNGARY AT THE ALL-STAR BREAK

REF: A) BUDAPEST DAILY JUNE 25 B) BUDAPEST 993 C)
 BUDAPEST DAILY JUNE 26 D) BUDAPEST 992

BUDAPEST 00001043 001.2 OF 002

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Our contacts across the political spectrum are looking forward to a long summer break following the conclusion of Parliament's spring session on June 25. 2007 has brought few breakthroughs thus far, and many foresee a "hot fall" after the slow summer "cucumber season."

¶2. (C) The government is perhaps gladdest of all to see the summer begin. Although a last-minute compromise on health care avoided open conflict with the SZDSZ, the convoluted deal has managed to displease many and to confuse the rest (ref a). Unnamed MsZP MPs have gone public with complaints regarding Gyurcsany's perceived acquiescence to the SZDSZ's demands on health care, underscoring the possibility that the party may consider new leadership in the near term. Some within the party are talking about his departure as a matter of time, and FIDESZ president Viktor Orban tells us that the MSZP has "already decided that Gyurcsany must go" and is now just "waiting for him to have an accident."

KISS OF DEATH?

¶3. (C) Many see an increasingly assertive MSZP behind the recent cabinet reshuffle (ref b). Former SZDSZ president Gabor Kuncze, for example, assesses that "Gyurcsany is not running the country - the MSZP parliamentary caucus is." Although Gyurcsany has personally downplayed the significance of the "minor personnel decisions," he must be aware that bringing long-time rival Peter Kiss into the Prime Minister's Office represents a huge - and mostlikely imposed - risk given his own personal political ambitions. Orban believes that Kiss, a masterful bureaucratic operator, will use his new position as Cabinet Minister to "get up to speed" to replace Gyurcsany. The PM will also likely keep a close eye on Defense Minister Szekeres, another MSZP rival who has built an impressive record as a reformer at the MOD.

¶4. (C) Although the summer break should afford the government the chance to put its own house in order, the PM has been notoriously slow to fix his own office. He made little productive use of the winter vacation, and the government may return with little clarity regarding the respective roles of political power-brokers like Kiss, Gyurcsany hold-overs such as Tibor Draskovics, and new-comers such as Foreign Policy Advisor Karoly Banai.

IS THERE ANY LOVE LEFT TO LOSE?

¶5. (C) SZDSZ President Koka, too, will face some difficult decisions by the fall. He has engaged in brinksmanship on

health care and appears inclined to continue the pressure on the MSZP by issuing "19 points" to clarify roles and responsibilities within the coalition. His tactics have caused considerable resentment within the MSZP, with many complaining of "SZDSZ blackmail." MSZP MP Alexandra Dobolyi, for example, demonstrated greater animosity toward Koka than toward Orban in a recent conversation, commenting that "we thought the coalition was love at first sight ... and now there's no love lost."

¶6. (C) Although Kuncze downplays talk of the SZDSZ leaving the coalition as "a one-way ticket to political extinction," he does predict that Koka will leave the cabinet in the fall in order to focus on his party responsibilities. With his relationship with Gyurcsany now reportedly more professional than personal, Koka will have to calculate how fast and how far to push the government when parliament returns in September. His efforts to assert the SZDSZ's independence from the MSZP may be tempered by the realization that Gyurcsany is far more sympathetic to the SZDSZ's agenda than any other figure in the MSZP leadership.

KILL THEM WHILE YOU CAN

¶7. (C) Pressing the government on all fronts is likely to remain FIDESZ's focus. Although both Parliamentary faction leader Tibor Navracsics and Foreign Affairs Committee Chair Zsolt Nemeth have both confided to us that they are looking forward to a break, Viktor Orban was full of energy during a June 26 meeting with Ambassadors. With the June 26 decision by the National Election Commission to approve the referendum questions challenging elements of the government's reform agenda (ref c), FIDESZ will begin the process of gathering the signatures required to take the issue to the polls in the spring. Orban believes the exercise will effectively serve as a referendum on the Gyurcsany government, and he is confident FIDESZ will be able to mobilize signatories this

BUDAPEST 00001043 002.2 OF 002

fall and voters next spring. Political analysts add that the referendum also serves Orban's agenda by providing a focal point for the public and the party rank and file, thus delaying any reckoning between FIDESZ's moderate and populist elements.

¶8. (C) Whatever the tensions within the opposition, Orban clearly believes the Gyurcsany government is worse off. The Gyurcsany government, he suggests, is in "complete bureaucratic disarray," focusing on "organizational charts instead of issues." While some in the party have expressed concern that an MSZP decision to oust the Prime Minister in the near-term would allow his replacement sufficient time to distance himself from Gyurcsany's record by the 2010 elections, Orban would rather see Gyurcsany dead than merely wounded. "I've learned," he told Ambassadors June 26, "that when you have the chance to kill your rival you don't think about it - you just go ahead and do it."

GRUMBLE ALL THE WAY ... TO THE BEACH

¶9. (C) The public mood is easier to read than it is to understand. Popular discontent seems palpable (ref d), but individuals' complaints often revolve around unrealistically high expectations. As Gyurcsany's wife, Dr. Klara Dobrev, observed, Hungarians continue to head to Lake Balaton in droves for extended vacations ... complaining all the way. Although one thirty-something MOL executive expressed hope at a recent event that his generation would emerge as a positive force in politics, the other guests predicted that Hungarians will continue to "do anything to avoid accountability."

REFORM R.I.P.?

¶10. (C) Comment: All this bodes poorly for the reform agenda. Subject to criticism by both the MSZP and the SZDSZ

(much less FIDESZ), Gyurcsany may lack the commitment, the credibility, and the political capital to go far beyond the steps taken to date. His public statements, for example, have emphasized the success of deficit-reduction efforts and suggested that further austerity measures may not be necessary. Even supporters such as Foreign Policy Institute Director Pal Dunai believe the PM has been unwilling - or unable - to mobilize his governing majority to move forward on priorities such as tax reform and public administration. Although everyone clearly needs a break after months of gridlock, the problems will still be here when they return to business in the late summer. Some issues, such as energy security, may demand more immediate attention ... and more bipartisan cooperation than Hungary has demonstrated of late.

End Comment.

FOLEY